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Division of Municipal Audit

April 20, 2005

Honorable Mayor and Members of the  
Board of Commissioners  
City of Adamsville  
231 East Main  
Adamsville, TN 38310

Mayor and Board of Commissioners:

As part of our ongoing process of examining the records of municipalities, we have completed our investigative audit of selected records of the City of Adamsville Department of Public Works. This examination focused on the period July 1, 2002, through March 31, 2004. However, when the examination warranted, this scope was expanded. The audit was limited to an examination of transactions related to water line extensions and pipe inventory.

**1. Failure to account for water pipe**

We performed a reconciliation of water pipe purchased, used, and on hand for the period July 1, 2001, through March 11, 2004, that revealed an unexplained pipe shortage.

Pipe Size	Price* (per foot)	Shortage (in feet)	Cost
Four Inch	\$ 0.78	622	\$ 485.16
Six Inch	1.55	4,820	7,471.00
Eight Inch	2.67	1,280	3,417.60
<b>Totals</b>		<u>6,722</u>	<u>\$11,373.76</u>

*\* Price used for this calculation was the lowest per foot price the city paid during the 32-month period of the reconciliation. This produced the most conservative estimate of the cost of the loss to the city.*

Public works director Bobby Graham told state auditors that he was unaware of any pipe shortage until they brought it to his attention in August 2004. However, the city's private accounting firm indicated that they had on several previous occasions discussed with Mr. Graham his failure to account for water pipe. In addition, the firm cited inadequate controls over pipe inventory in both the June 30, 2002, and 2003 City of Adamsville comprehensive annual financial reports.

State auditors could not independently verify the legitimacy of some of the work orders provided by Mr. Graham to account for city water pipe. Mr. Graham acknowledged that he might have created the work orders after the accounting firm began asking about pipe usage. Mr. Graham admitted that he gave auditors a work order for a 1000-foot project that was never actually done. In addition, other public works employees indicated that another work order provided by Mr. Graham indicating use of 400 feet of water pipe was also inaccurate in that the job required only the application of gravel.

Mr. Graham offered state auditors several explanations as to why the city was missing over a linear mile of water pipe. He indicated that local contractors sometimes took pipe and other items from the public works inventory. He said he assumed that those contractors replaced the items they took but that he did not know for sure. He also indicated that city employees used pipe for leak repairs without documenting the use. Finally, he claimed that the pipe was occasionally left unprotected and anyone could have taken it. Auditors were unable to verify that any of the water pipe shortage was a result of this alleged activity.

We have referred this matter to the local district attorney.

2. **Sale of water pipe from public works director to local real estate developers**

Our audit revealed that in 2002, a local developer purchased water pipe from public works director Bobby Graham. According to the developer, his company inquired of Mr. Graham about the requirements of installing water pipe that would eventually become part of the city's system. At that time, according to the developer, Mr. Graham offered to sell him the water pipe for that project. Our audit revealed that, although Mr. Graham paid for the water pipe with his own money, he purchased the pipe in the name of the Adamsville Public Works Department. He did not pay state or county sales tax, which would have been \$680. In addition, he resold this water pipe to the developer at a profit of \$1,480.40. The developer provided documentation indicating that Mr. Graham offered to sell him water pipe again in 2004.

Mr. Graham acknowledged to auditors that he did personally profit from the transaction with the developer and that he failed to pay the required sales tax. However, Mr. Graham stated that he was unaware that he personally profited from this transaction until auditors brought it to his attention, even though he deposited the proceeds from the sale into his personal bank account and paid for the pipe with money orders he purchased with his personal checks. He told auditors that he engaged in this transaction with the sole purpose of helping the city.

Mr. Graham acknowledged that he personally sold pipe to another developer. Auditors could not independently confirm the complete nature of this transaction. However, Mr. Graham again maintained that he engaged in this transaction to help the city.

This matter has been referred to the Tennessee Department of Revenue.

**3. Failure to obtain approval for line extension from the Tennessee Department of Environment and Conservation**

One work order provided by Mr. Graham was for a 5,240-foot line extension of 6-inch water pipe on Highway 64-Coffee Landing Road. However, officials with the Tennessee Department of Environment and Conservation, Division of Water Supply (TDEC) stated that they had no documentation that Mr. Graham had obtained the required approval for this project. Mr. Graham initially told auditors that the project did not require TDEC approval. However, other city employees told auditors they believed approval was necessary and had been obtained. In a subsequent interview, Mr. Graham stated he was unaware that TDEC approval was necessary for any new water lines installed by the city.

Auditors identified at least four additional line extensions for which, according to TDEC officials, no approval was obtained.

Section 68-221-706 (3), *Tennessee Code Annotated*, states, "No new construction shall be done nor shall any change be made in any public water system until the plans for such new construction or change have been submitted and approved by the department." (Department is defined in TCA 68-221-703 (8), as the Tennessee Department of Environment and Conservation.)

We have referred this matter to the Tennessee Department of Environment and Conservation.

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4. **Failure to retain test results for line extensions**

Our investigative audit also revealed that the Adamsville Public Works Department did not maintain documentation of bacteriological results indicating adequacy of disinfection procedures of newly constructed water distribution lines. Chapter 1200-5-.02, Rules of the Tennessee Department of Environment and Conservation, Bureau of Environment, Division of Water Supply, states, "Newly constructed or repaired water distribution lines . . . shall be flushed and disinfected in accordance with American Water Works Association (AWWA) Standards. . . . Bacteriological results indicating adequacy of disinfection procedures must be maintained on file for a period of five (5) years."

We have referred this matter to the Tennessee Department of Environment and Conservation.

To restore financial integrity, ensure public safety, and reduce the risk of civil penalties, the mayor and members of the board of commissioners should take immediate action to correct these deficiencies.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit